DOCUMENT RESUME

ED 311 447 CS 212 090

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TITLE Handling Bad News in Corporate Annual Reports with Style, Grace, and Candor.
PUB DATE May 89
NOTE 15p.
PUB TYPE Reports - Research/Technical (143)

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS *Annual Reports; Audience Analysis; *Business Communication; Discourse Analysis; Language Usage; Sentences; *Technical Writing
IDENTIFIERS *Chief Executive Officers; Writing Contexts; *Writing Strategies

ABSTRACT

A study examined the effectiveness of messages to stockholders in the annual reports of four Chief Executive Officers (CEO's) representing corporations that are struggling to recover from financial losses or declining profits. The examination first considered each CEO's syntax and diction, then each CEO's awareness of audience and clarity of purpose, and finally the effectiveness with which each CEO opened and closed the message. The study then speculated on the success of each message by applying three principles of prose discourse suggested by Joseph Williams in his article "Plain English: The Remaining Problems." Findings suggest that the CEOs achieved varying degrees of success in dressing up bad news, and that the most successful was the one that followed the principles most closely. (Four tables of data are included.) (KEH)

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# HANDLING BAD NEWS IN CORPORATE ANNUAL REPORTS WITH STYLE, GRACE, AND CANDOR

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Chief Executive Officers (CEO's) simply cannot hide bad news from their stockholders in corporate annual reports. However, CEO's may be able to dress up their messages when they have bad news to explain. I have examined various patterns for bad news messages in corporate annual reports and find that some CEO's use effective techniques in attempting to mollify stockholders.

I examine the messages to stockholders in the annual reports of four CEO's representing corporations that are struggling to recover from financial losses or declining profits. I analyze each CEO's syntax and diction first; then, I turn to each CEO's awareness of audience and clarity of purpose. Third, I consider the effectiveness with which each CEO opens and closes the message. Finally, I speculate on the success of each message by applying criteria suggested by Joseph Williams (1986) in his article "Plain English: The Remaining Problems." I find that CEO's can achieve a modicum of success in dressing up bad news.

## PRELIMINARY ANALYSIS

I examine the messages to stockholders in the annual reports of four chief executive officers (CEO's) representing corporations that are struggling to recover from financial losses or declining profits. I analyze each CEO's syntax and diction first; then, I turn my attention to each CEO's awareness of audience and purpose, and his (all male) effectiveness at opening and closing the message. I look at openings to determine how well the CEO engages his audience; I look at closings to determine how the CEO leaves his audience: What taste is left in the stockholder's mouth? Finally, I speculate on the success of the messages by applying criteria suggested by Joseph Williams (170-173).

I have labeled the corporations Companies A, B, C, and D. Table 1 shows the results of my preliminary analysis of syntax.

### Company A

This CEO uses about 1000 words to write 30 passive constructions in 42 sentences or 68 clauses. He uses only two agents in the entire message. His message contains several examples of what I call "words predicting change," for example, refurbish, rejuvenate, remodel and convert. There are five it is or it was structures. His verbs are

**Table 1**

Preliminary Analysis of Syntax

| | Companies | | | |
|---|---|---|---|---|
| | **A** | **B** | **C** | **D** |
| number of words | 1000 | 1000 | 750 | 1250 |
| sentences | 42 | 40 | 37 | 49 |
| average words/sentence | 24 | 25 | 20.3 | 25.5 |
| clauses | 68 | 57 | 50 | 84 |
| average words/clause | 14.7 | 17.5 | 15 | 14.9 |
| passive constructions | 30 | 14 | 12 | 11 |
| % of passives/clause | 44 | 24.5 | 24 | 13 |
| agents | 2 | 15 | 5 | 28 |
| action verbs* | 14 | 38 | 26 | 46 |

* "Express crucial actions as verbs" (Williams, 168). I fully recognize that my identifying these "crucial actions as verbs" remains somewhat subjective.

not well placed and therefore don't depict crucial actions. I find some of his diction suspect, for example, profitwise, produced dramatic results, not an inexpensive operation, and profit problem. I know I am going to sound like a neo-Newmanite (Edwin, that is) but the analogous form profitwise doesn't work for me in an annual report. In the second example dramatic results is (are?) never explained. And, in the third example, not an inexpensive operation should probably have been written an expensive operation. Finally, what is a profit problem? A loss?

As I noted earlier, this message contains 30 passive constructions. I have a sidelight comment about the use of passive constructions in this message and the other messages, too. Sidelight comment: A pattern seems to be that if a CEO has bad news, he uses a passive construction; if he has good news, he uses an active form. Here is an example of each:

Bad News Passive

As a result, all financial data has been restated to reflect the discontinuance of these operations.

Good News Active

[The Company] also plans to add more popular home decor lines in addition to its crafts mainstays.

Company B

This CEO also uses about 1000 words in 40 sentences or 57 clauses. He has 14 passive constructions and, much to his credit, 15 agents. His only word predicting change is restructuring, but he does outline specific changes that were made and some that will occur next year. I can identify about 38 well placed verbs. Most of the verbs, however, are not well placed. I find some of his expressions to be peculiar, for example, resulting profile retains several traditional strengths, including the important element of balance. He doesn't explain those traditional strengths, nor does he explain balance. I'm not even going to guess at their meanings. Some other examples: markets remain sluggish, I like that, but not annuity-type earnings. For me, sluggish is a visual word, but I don't get anything from annuity-type.

Company C

In 750 words, this CEO writes 37 sentences or 50 clauses. He uses 12 passive constructions and only 5 agents. He uses 25 verbs for crucial actions. He reminds the stockholders that they own the company by using your

company three times and your management twice. His words predicting change introduce a list, so I gave him credit for advanced organization: ... a number of significant programs to reverse the recent trend of declining earnings. Is declining earnings the same as losses? I find two of his phrases curious: to position your company and concluded joint venture agreements. I suppose to position has a certain visual appeal, but I think that venture may be ill-used. The stockholders may want promises of caution with their money in light of the recent financial problems. From the context of the total message the expression joint venture appears prudent, but carefully selected diction may yield something less volatile.

Company D

This CEO offers 1250 words in 49 sentences or 84 clauses. He uses 28 agents and only 11 passive constructions. The agents are all pronouns. He starts by using I then he links himself with the audience by referring to our company. From that point, he uses we. I think that his structure works quite well because the audience seems to be drawn in. His word predicting change is restructuring; he uses it as a subject and as a modifier, for example, The first significant restructuring of the company and our restructuring efforts. Again, I believe this works because he not only repeats the word 13 times, but he associates it each time with a specific element of change or improvement. It becomes a magic word for his audience. He also uses advanced organizers to set up lists, thereby helping his audience to follow his points more easily, for example, In 1986, our restructuring efforts concentrated on three major areas: organization, finance, and assets. He then discusses each major area.

His diction seems direct and forceful, for example, And we will not hesitate to make further restructuring moves when such actions serve that purpose [benefit to stockholders]. This direct, no apology diction is tempered with expressions like corporate family and parent company. Manipulative? Perhaps, but I think it works in this message. Also, with regard to diction, this CEO uses about 46 verbs in crucial action situations. Some of the verbs seem fairly strong too, for example, plagued, endure, initiate, embark, idled. Not poetry, but better than cold pizza.

## AWARENESS OF AUDIENCE

Now, I want to comment on the CEO's awareness of audience. Odell and Goswami tentatively suggest that corporate

administrators are aware of audiences and that these administrators appear to make stylistic decisions based, in part, on their perception of audience (201-223). I believe that the CEO's I reviewed were aware of their audiences, in fact, they may have been painfully aware of their audiences. Each CEO had to prepare a message that explained to his stockholders, his primary audience, why the company lost money. I realize that people other than stockholders may read annual reports, but the primary audience still remains the stockholder, the investor, who has probably watched the company's stock decline, who has received a substantially reduced dividend or no dividend at all. This is an informed, attentive audience who wants answers.

I feel that these CEO's wanted to respond to their audiences. I perceive no evidence of purposeful manipulation, very little business jargon, except a few financial terms, and reasonable levels of abstraction. The messages are going to be a bit abstract because the CEO's probably had to work within about a 1000 word limit, so they had to select details carefully. Even so, the CEO's really couldn't hide anything from their audiences. Further, I note only a few polite euphemisms, such as, positioned for future growth, We have acquired positions in selected market niches, forward momentum, and declining earnings. For me, a polite euphemism is sort of a tacit linguistic agreement among people. It is like saying, "I'll use this expression, but you know what I really mean." But, even irate stockholders will tolerate a few of these polite euphemisms.

I should comment on tone at this point because I feel that the tone of a message results from a combination of awareness of audience and realization of purpose. Doheny-Farina suggests this, especially with regard to the corporate setting (173). Doheny-Farina's conclusions are tentative, but he suggests that a corporation's organization, social context, and image will influence the rhetorical context of the corporation's writing. To me, this means that if a corporation views its relationship with stockholders as very formal, then the CEO's tone in his annual report will be very formal. The CEO's rhetorical decision is based on his perception of the social and organizational context of his corporation. (Williams suggests, too, that what the big wigs do will be done by all the underlings.)

The tone of each message ranges from extremely formal, tuxedo talk, to almost informal, sport coat and tie talk. By extremely formal, I mean that the CEO separates himself from his audience by means of passive constructions and lofty diction. By almost informal tone, I mean that the

CEO relinquishes some authority and draws his audience closer by using agent actor constructions and familiar diction. (See the section on Effectiveness of Openings for examples.)

## AWARENESS OF PURPOSE

Turning to purpose, I discern six overlapping purposes that each CEO at least touches on in his message:

1. state the current condition of the company for the audience;
2. explain to the audience why earnings or profits are down;
3. persuade the audience that steps have been taken to prevent future losses;
4. convince the audience that changes have been made to improve conditions;
5 seek the audience's continuing support;
6. bolster the confidence of the audience (or put on a happy face for the audience).

Each CEO approaches these purposes in different ways. In table 2, I show the order of emphasis that each CEO gave to each purpose; then in table 3, I judge how successfully each CEO achieved or realized each purpose. I judge the emphasis that a CEO gave to a particular purpose by counting the approximate number of words that the CEO used to discuss it; I evaluate the successful realization of a particular purpose by considering the clarity and detail with which the CEO expressed that purpose. Both of my measures are subjective to a degree, but I apply these measures equally to each message. One other difficulty: I sometimes have trouble clearly separating purposes.

## EFFECTIVENESS OF OPENINGS

I want to look at effectiveness of the opening of each CEO's message. How well does each CEO engage his audience?

Company A

> While 1986 could not be called a successful year profitwise for the Company, it was a year in which the conversion of the World Bazaar division was initiated with resounding positive results being produced in the fourth quarter.

**Table 2**

Priority of Purposes

| Purpose: | Companies | | | |
|---|---|---|---|---|
| | **A** | **B** | **C** | **D** |
| state current conditions | 5 | 1 | 4 | 4 |
| explain why profits are down | 6 | 6 | 5 | 3 |
| persuade...fewer future losses | 3 | 2 | 1 | 1 |
| convince... improved conditions | 1 | 3 | 2 | 2 |
| seek continuing support | 4 | 5 | 6 | 5 |
| bolster confidence | 2 | 4 | 3 | 6 |

**Table 3**

Successful Realization of Purposes

| Purposes: | Companies | | | |
|---|---|---|---|---|
| | **A** | **B** | **C** | **D** |
| state current conditions | - | + | - | o |
| explain why profits are down | - | - | - | + |
| persuade...fewer future losses | o | + | + | + |
| convince... improved conditions | o | o | o | + |
| seek continuing support | - | - | o | o |
| bolster confidence | o | o | o | + |

Scale: + = successful
o = some success
- = unsuccessful

I don't like it. He states the truth, but then he sidesteps or dodges the issue. Sort of -- I flunked math, but I got an A on my last bowling quiz. The passive constructions don't help to draw in the audience.

Company B

> [The Company's] continued recovery from the economic recession of the early 1980s was evidenced by your company's performance during 1986. Perhaps equally important, an operational restructuring permitting concentration of corporate resources on core businesses was essentially completed.

This opening is not much better than Company A's but for different reasons. Company B does have better financial news for the audience, but the CEO chooses to present two sentences at the beginning that force the audience to read the opening at least twice before understanding it. Again, the heavy passive constructions, coupled with the vague diction, muddies the message and separates writer from reader. Also, these sentences violate the predication unit (DeGeorge, Olson, and Ray) of through the verb in seven or fewer words.

Company C

> [The Company's] 1986 sales were $883.8 million, up 7% from $829.4 million in 1985. However, a disappointing loss of $17.2 million, or $.45/share was incurred. Results of operations were essentially break-even, while nonrecurring charges amounted to $.42/share.

However in line two tells the story of this opening. However deflates and even contradicts the message in the first sentence. This message actually improves as it progresses. But, I think that this opening is abysmal. This CEO's audience knows that the Company lost money in 1986. Why does he start with a sentence that seems to mislead his audience? I would be upset if I were a stockholder.

Company D

> By any standard of measurement, 1986 was a turbulent year for the Corporation.
>
> Depressed oil and gas prices cut deeply into the revenues of our largest business segment. A lag in steel demand, coupled with domestic and worldwide overcapacity, plagued the industry and contributed to a drop off in our pre-strike steel sales.

I like this direct opening. I may not want to invest in the Company, but I appreciate the clear and forceful diction.

The message continues in this manner. The CEO creates a tone and a relationship with the audience. Whitburn (244) holds that "Writers have strained against the obligation to write impersonal prose, and readers have been bored by it." The CEO writing the message for Company D tries to come to terms with the impersonal prose.

## EFFECTIVENESS OF CLOSINGS

Now, I'll look at the effectiveness with which each CEO closed his message. What taste is left in the stockholder's mouth?

Company A

> Although 1986 was most unpleasant for the Company, when the cause of a problem is identified and the medicine works, the future looks good.

What can I say? I reviewed this message at least 12 times and I did not perceive that the cause of the problem was ever identified. This final sentence reflects the weaknesses of the entire message. The message simply doesn't work.

Company B

> Our efforts to meet the objectives of an approved strategic plan will continue. I know our company and its people and, during my stewardship, will work to foster an environment which will permit shareholders to benefit from the talents and contributions of all employees. Working together and working cooperatively, we'll build on the gains already achieved and continue our progress.

I don't know what an approved strategic plan refers to. There seems to be a nice attempt at positive thinking and it is reflected in the tone, but this attempt is offset by an awkwardly stated second sentence and badly over-written closing.

Company C

> We wish to thank our employees and shareholders for their support during this transition year. We are confident that our 1987 Annual Report will begin with the sentence

"We are pleased to report..."

This works reasonably well. I notice the two agents and the active constructions. Of course, I don't know how much support the employees or shareholders gave the Company, but I like the tone. transition year is another example of those polite euphemisms I mentioned earlier.

Company D

> We see 1987 as a year of opportunity. We begin with a strong cash position...oil prices are stabilizing...we are headed back into the steel market, and we will set up the steel business as a wholly owned subsidiary...there are encouraging trends in the natural gas market...and in the next two years, we plan to sell an additional $1.5 billion in assets unnecessary to our core businesses.
>
> We are well positioned -- and committed -- to take advantage of these and other positive developments for the benefit of **all** our shareholders. [All punctuation was in the original message.]

I see agents, active constructions, upbeat cadence, and a positive, almost informal tone. It almost sounds like a political rallying call. But, it works, at least for me. I, also, notice the effective placement of unnecessary in the last line of the first paragraph. Instead of unnecessary assets, he writes assets unnecessary. A subtle variation in syntax that emphasizes the CEO's point.

## APPLYING WILLIAM'S CRITERIA FOR SUCCESSFUL MESSAGES

The last thing that I want to do is apply the criteria or what Williams refers to as "three simple principles of prose discourse" (167) to each CEO's message to determine which messages adhere most closely to these principles and are therefore, in my view at least, successful. First, the principles:

1. Express crucial actions as verbs.
2. Name the subject of the verb one of the cast of characters involved in the action, the agent of the action, if possible.
3. Put at the beginning of your sentence that information which links the sentence to what has gone before or which is relatively more familiar to your audience than anything else in the sentence; put at the end that information which is relatively more complex, less familiar, less predictable (168).

Principle 3 may be expressed as a given-new sequence or agreement.

In table 4, I apply the Williams' principles to each message. The message that comes closest to following these principles is the message written by the CEO for Company D. Again, my judgments may be a tad subjective, but the criteria are equally applied to each message.

The messages from CEO's that I have analyzed may not be typical of all such messages in annual reports, and further, I do hesitate to draw hard conclusions based on such limited samples of annual reports; however, I speculate that CEO's bad news messages to stockholders can be more effectively presented, i. e., can be presented with style, grace, and candor if the CEO's follow the Williams' principles, adhere to the predication unit, and avoid what Whitburn calls impersonal prose.

**Table 4**

Applying Williams' Criteria for Successful Messages

| Criteria: | Companies | | | |
|---|---|---|---|---|
| | **A** | **B** | **C** | **D** |
| express crucial actions as verbs | 1 | 2 | 2 | 3 |
| use the agent of the action | 1 | 2 | 1 | 4 |
| use given-new sequence of information | 2 | 3 | 3 | 3 |

Scale: 4 = very evident
3 = quite evident
2 = somewhat evident
1 = not evident

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